UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF TEXAS
MARSHALL DIVISION

DATATREASURY CORP. Plaintiff, v. SMALL VALUE PAYMENTS COMPANY Defendant.	No. 2-04CV-85 REPLY BRIEF IN FURTHER SUPPORT OF MOTION TO STAY ORAL ARGUMENT REQUESTED

DEFENDANT SMALL VALUE PAYMENTS COMPANY'S REPLY BRIEF IN FURTHER SUPPORT OF ITS MOTION TO STAY

COMES NOW Defendant Small Value Payments Company ("SVPCo")[1] and respectfully submits the instant reply brief in further support of its motion to stay, filed on January 27, 2006 ("the Stay Motion").[2]

PRELIMINARY STATEMENT

As of January 2006, the United States Patent & Trademark Office (the "PTO") has been reexamining the two patents-in-suit here, U.S. Patent Nos. 5,910,988 and 6,032,137,[3] having determined that there are "substantial new questions of patentability" with respect to those patents. In light of the Reexams, SVPCo moved this Court for an order: (1) adjourning the scheduled trial date of October 10, 2006; (2) staying all proceedings in this case pending the outcome of the Reexams; and (3)

[1] In 2004, SVPCo merged with affiliated payments businesses to form The Clearing House Payments Company L.L.C.

[2] Plaintiff DataTreasury Corp.'s ("DataTreasury" or "DT") response to the Stay Motion is referred and cited to herein as the "Response."

[3] The PTO initiated reexamination proceedings for the patents-in-suit (collectively, the "Reexams") upon the requests of the defendants in case number 03-CV-00039 before this Court (the "First Data Defendants").

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requiring the parties to appear before this Court on October 10, 2006, for a status conference on the Reexams.

In an effort to "render moot" the arguments made by SVPCo in its Stay Motion (Response at 2), DT has filed an entirely new lawsuit in this District,[4] alleging infringement by SVPCo of the patents-in-suit and two additional patents.[5] DataTreasury maintains that the 2006 Complaint, which DT has yet to serve on SVPCo, is a "critical new factor weighing strongly against SVPCo's stay motion." (Id. at 2). DataTreasury is mistaken.

SVPCo has satisfied its burden to demonstrate that a stay of this litigation is appropriate in light of the ongoing Reexams. Nothing in DT's Response defeats the Stay Motion because, as SVPCo demonstrates below, the Response is "full of sound and fury, signifying nothing."[6] SVPCo thus respectfully requests that this Court grant in its entirety the relief requested in the Stay Motion.

ARGUMENT

The relevant factors in deciding the Stay Motion are whether: (1) the stay would simplify the issues of the case; (2) discovery is complete and/or a trial date has been set; and (3) the stay would result in prejudice or a clear tactical disadvantage to the nonmovant. See In re Cygnus Telecommunications Tech, LLC, Patent Litig., 385 F.

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[4] DT filed its new complaint for patent infringement on February 24, 2006, case number 06-CV-72 (the "2006 Complaint" or the "2006 Lawsuit"). SVPCo learned that DT filed the 2006 Complaint from DataTreasury's description of that filing in its Response.

[5] The 2006 Complaint contains patent infringement claims with respect to four patents in addition to the patents-in-suit here, but only two of those four patents are asserted against SVPCo. All of the four patents were acquired by Datatreasury on February 6, 2006, after SVPCo filed the Stay Motion on January 27, 2006, in a transparent but misguided attempt to defeat that Motion.

[6] Macbeth Act V, sc. 5

Supp. 2d 1022, 1023 (N.D. Cal. 2005). In addition, where the stay being requested is in connection with a PTO reexamination, courts also consider the technical expertise the PTO possesses in evaluating patents and prior art. See Bausch & Lomb, Inc. v. Alcon Labs., Inc., 914 F. Supp. 951, 953 (W.D.N.Y. 1996); Loffland Bros. Co. v. Mid-Western Energy Corp., No. CIV-83-2255-E, 1985 WL 1483, at *2 (W.D. Okla. Jan. 3, 1985).

The grounds for SVPCo's Stay Motion are simple and straightforward. First, a stay in light of the ongoing Reexams is appropriate here to conserve the resources of this Court and the parties. If, at the conclusion of the Reexams, the PTO renders a decision that the claims of the patents-in-suit are not patentable, or if those claims are amended to narrower scope, such decision will be binding upon this Court. Any efforts made by the parties and/or this Court to resolve the issues currently under evaluation by the PTO may be obviated in whole or in part by the outcome of the Reexams, causing this Court to have to readdress those issues. (Stay Motion at 7-10, 13-14). Second, a stay will not prejudice DataTreasury, particularly since DataTreasury has not taken any active steps to prove its infringement claims during the course of this litigation. (Id. at 12-13). None of SVPCo's grounds is cogently challenged by DataTreasury.

I. IT IS WELL WITHIN THIS COURT'S DISCRETION TO GRANT THE STAY REQUESTED BY SVPCO.

In its Stay Motion, SVPCo identified the benefits to this Court and the parties from a stay of this litigation pending the Reexams. A stay would prevent the parties and this Court from engaging in efforts to construe the claims of the patents-in-suit in tandem with the PTO, and would also provide an opportunity for this Court and the parties to benefit from the PTO's expertise in evaluating the patents-in-suit. (See id.

at 6-11). In light of the benefits associated with the stay requested by SVPCo, it is well within this Court's discretion to grant the Stay Motion. DataTreasury's Response does not dispute any of the benefits discussed in the Stay Motion.

A. As a Result of DT's Filing of the 2006 Complaint, The Court's Current Schedule Cannot Be Maintained.

The linchpin of DataTreasury's Response is that, as a result of its filing of the 2006 Complaint, "SVPCo's efficiency and cost arguments have been rendered moot." (Response at 2) (internal footnote omitted)). DT's argument is flawed and inconsistent with the rest of its own Response.

DT also argued that SVPCo's request for a stay "comes way too late" because, according to DataTreasury, "[t]his case is more than two-thirds of the way over." (Response at 19). However, if DataTreasury follows through with its stated intention to consolidate this case with the 2006 Lawsuit,[7] SVPCo's Stay Motion is hardly "way too late." There has been no activity whatsoever in connection with DataTreasury's 2006 Lawsuit; DT has yet even to serve SVPCo.

Assuming arguendo that this case is consolidated with DataTreasury's 2006 Lawsuit, this Court's current schedule cannot stand. DataTreasury's 2006 Lawsuit involves an additional four patents and fifty-five defendants. No discovery has been taken in connection with any of the new claims alleged in the 2006 Complaint. None of the claims of the four additional patents asserted in the 2006 Complaint has been construed by this Court. The schedule that currently governs this matter would have to be entirely redone for purposes of any consolidated action. At a minimum, the current

[7] SVPCo does not here take any position on DataTreasury's proposal regarding consolidation, but will do so at the appropriate time if DataTreasury does indeed make such a motion.

trial date will need to be adjourned, which is precisely the relief requested in the Stay Motion. See, e.g., GPAC, Inc. v. D.W.W. Enters., Inc., 144 F.R.D. 60, 64-65 (D.N.J. 1992) (granting a stay where, inter alia, a new defendant had been added to the litigation, requiring additional discovery and thus belying any suggesting that a stay would unduly delay the litigation).

B. The Issues in This Litigation Will Be Affected By the Results of the Reexams.

In order to grant the requested relief in the Stay Motion, this Court must be convinced that a stay to allow for further progress of the ongoing Reexams is an acceptable means of avoiding unnecessary expenditure of judicial resources. Bayer AG v. Novartis Crop Protection, Inc., Nos. 98-996-C-M2, 99-279-B-M2, 2000 WL 1124513, at *3 (M.D. La. June 29, 2000) (staying infringement litigation pending outcome of a PTO interference proceeding regarding the patent-in-suit because "there is no reason why litigation between the same parties, embracing common issues, should be prosecuted simultaneously"). Inasmuch as DataTreasury alleges that SVPCo literally infringes all of the claims of the patents-in-suit, a decision from the PTO on the invalidity and/or a change in the scope of the claims at issue necessarily affects this litigation. DT does not argue otherwise in its Response.

Instead, DT makes use once again of its 2006 Complaint as a basis for asserting that a stay should be denied because DT's willingness to tie up additional resources in this District means that the "parties to this action will be litigating against one another in the Eastern District of Texas regardless" of the Reexams. (Response at 2). DT's belief that a stay is unwarranted unless the issues in this lawsuit and the Reexams are identical reveals DataTreasury's misunderstanding of this Court's discretionary ability to manage its docket.

In order to grant the stay requested by SVPCo, this Court need not be convinced that the issues in this litigation and those in the Reexams are identical; this Court must only determine that, since the Reexams have the potential to resolve controlling issues in this case, a stay is an appropriate means of conserving the resources of the Court and the parties. See Landis v. N. Am. Co., 299 U.S. 248, 254 (1936) ("[W]e find ourselves unable to assent to the suggestion that before proceedings in one suit may be stayed to abide the proceedings in another, the parties to the two causes must be shown to be the same and the issues identical."); Alloc, Inc. v. Unilin Décor N.V., No. Civ.A. 03-253-GMS, 2003 WL 21640372, at *2 (D. Del. July 11, 2003) (staying litigation where continuation patent, not the specific patent-in-suit, was the subject of an ongoing PTO reexamination); see also Childers Foods, Inc. v. Rockingham Poultry Mktg. Co-op, Inc., 203 F. Supp. 794, 796 (W.D. Va. 1962) (staying infringement litigation in favor of Interference Proceedings before the PTO regarding the priority of the invention while acknowledging that "[i]t is true that the issues and parties in this action and in the Interference Proceeding are not identical"). In this case, the validity and/or scope of the claims of the patents-in-suit, currently being examined by the PTO, are indeed controlling issues in this litigation, regardless of DT's additional patent claims as alleged in the 2006 Complaint.[8]

[8] DataTreasury's reliance on cases such as Imax Corp. v. In-Three, Inc., 385. F. Supp. 2d 1030 (C.D. Cal. 2005) and In re Columbia University Patent Litigation, 330 F. Supp. 2d 12 (D. Mass. 2004) is misplaced. (See, e.g., Response at 15-16). In Imax, there were a number of controlling issues that were not within the PTO's jurisdiction, such as claims for violations of the Lanham Act and California Business and Professions Code. Imax, 385 F. Supp. 2d at 1030. In Columbia, while the court did not stay the litigation specifically in favor of pending reexamination proceedings, the court did establish a briefing schedule for

Moreover, if the instant litigation continues with, inter alia, the Court's scheduled Markman hearing on April 18, 2006, the combined efforts of this Court and the parties in construing the claims of the patents-in-suit will mirror those of the PTO as it conducts the Reexams. Any action by the PTO invalidating the claims of the patents-in-suit and/or any amendment to those claims will require that this Court revisit its claim construction efforts to bring them in accord with the PTO's proceedings. Notwithstanding the fact that this Court in three prior cases has construed certain terms and phrases of the patents-in-suit placed in contention by the involved parties (see Response at 4, n.9), SVPCo has, in its Responsive Claim Construction brief filed on February 28, 2006, demonstrated good cause for this Court to reconsider some of its earlier claim constructions. As a result, the Court's effort in construing the claims for purposes of this litigation will be a substantial undertaking, which can be simplified by the stay requested by SVPCo.

DataTreasury describes the Reexams as "mundane" and devotes a fair portion of its Reponse to minimizing their importance. First, DT attempts to predict the results of the Reexams, plainly hoping that the patents-in-suit will emerge from the Reexams unscathed. (See, e.g., Response at 7-8, 10-11). All of DT's efforts to "handicap" the results of the Reexam are misdirected. (Id. at 11).

No one can predict what the results of the Reexams will be. Knowing that, SVPCo did not base its Stay Motion on any purported clairvoyance into the workings of the PTO. Instead, SVPCo made the unassailable points that the Reexams may: (1) invalidate, in whole or in part, the patents-in-suit; (2) narrow or modify the

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invalidity on the ground of non-statutory double patenting and "substantially stay[ed]" the remainder of the case. Columbia, 330 F. Supp. 2d at 14.

claims of the patents-in-suit; or (3) not alter the claims but nonetheless provide a record that may be submitted as evidence in this action, upon which the parties and this Court can rely as a "richer prosecution history upon which to base necessary claim construction determinations or reconsideration." In re Cygnus, 385 F. Supp. 2d at 1024; see also Perricone v. Unimed Nutritional Servs., Inc., No. CIV.A. 301CV512 (CFD), 2002 WL 31075868, at *2 (D. Conn. July 18, 2002). Any of those scenarios can significantly impact this litigation, thus weighing heavily in favor of a stay of this litigation until the PTO reaches a result. See Target Therapeutics, Inc. v. Scimed Life Sys., Inc., No. C-94-20775 RPA (EAI), 1995 WL 20470, at *2 (N.D. Cal. Jan. 13, 1995) ("The final form of the claims therefore will remain uncertain until the conclusion of the reexamination procedure. It makes sense to ascertain the ultimate scope of the claims before trying to figure out whether defendants' products infringe the patents-in-suit."); see also Vitronics Corp. v. Conceptronic, Inc., 36 F. Supp. 2d 440, 442 (D.N.H. 1997) ("Because the PTO may clarify or entirely invalidate the [patent-in-suit] on reexamination, a stay is appropriate so that the scope of the patent will be defined prior to litigating the infringement claim.").

Second, DT argues that the fact that prior defendants did not obtain a judgment of invalidity in this Court means that it is unlikely that the PTO will come to such a conclusion on its Reexams. (Response at 11 ("[I]t defies reason to believe that JP Morgan Chase and Skadden Arps, or Ingenico and Nixon & Vanderhye, would have charted the course they did if this alleged 'prior art' remotely resembled a 'kill shot.' Thus, to the extent that the Court is inclined to handicap the outcome of the USPTO reexamination proceedings in determining whether these will truly 'streamline' or obviate the pending litigation, that calculation does not favor a stay.")). This argument is of no moment—as DataTreasury itself acknowledges elsewhere in its Response, this Court and the PTO do not utilize the same standards or consider the same evidence in reviewing the validity of a patent. (See id. at 13 ("The two forums take different approaches in determining invalidity and on the same evidence could quite properly come to different conclusions.") (citing Ethicon, Inc. v. Quigg, 849 F.2d 1422, 1428 (Fed. Cir. 1988))[9]. Given the different standards used by a court and the PTO in assessing invalidity, it is not at all "telling," as DataTreasury asserts, for SVPCo to reserve its rights to continue challenging the validity of the patents-in-suit if necessary in this litigation. Moreover, only patents and printed publications, but not prior public uses or sales, may serve as evidence of prior art in the Reexams. In contrast, such uses and sales may be asserted before this Court as prior art to challenge patent validity.

Whatever the decision of the PTO, the Reexams will provide the PTO's expert guidance on significant issues in this litigation. This Court is well within its discretion to stay this litigation to avoid wasting any of its resources on issues currently being assessed by the PTO. Moreover, as SVPCo indicated in its Stay Motion, the benefits associated with a stay will not be limited to this specific case but will extend to, at a minimum, DT's litigation with Magtek, No. 03-CV-00459; the First Data defendants, No. 03-CV-00039; and Viewpointe Archive Services LLC, No. 05-CV-00290, in which similar motions to stay are pending.

[9] Consider also the much publicized Blackberry case where the district court and Federal Circuit held patent claims not to be invalid, but where the PTO later rejected those claims.

II. NO PARTY WILL BE PREJUDICED BY THE REQUESTED STAY.

As SVPCo stated in its Stay Motion, DT will not be prejudiced by the stay SVPCo is requesting. (Stay Motion at 11-14). DT has not convincingly demonstrated otherwise in its Response. In fact, DataTreasury states in its Response that its patent lawsuit, "as much or more so than other forms of lawsuit, is heavily reliant on inertia." (Response at 21). A party believing in the "inertia" of patent infringement litigation can hardly be said to be prejudiced by a stay of that litigation.

Notably absent from the Response is any description of what efforts DT has made to prosecute its claims, or what contemplated efforts would be thwarted if this action were stayed. DT makes only the vague statement that, during the pendency of a stay, "memories will surely fade, key witnesses will move and change employment, [and] documents will be lost or destroyed." (Id.). To the extent that this statement is an assessment of the future and not a threat, DT has only itself to blame. Although DT bears the burden of proof in this matter with respect to infringement, it has failed thus far to prosecute or develop its patent infringement claims.[10] Only now, when faced with the possibility of an adverse decision from the PTO, does DataTreasury make noises about the "unconscionability" of any delay in this matter. (See, e.g., id. at 9) (arguing that the Stay Motion "if granted, would very likely place DataTreasury's lawsuit—and its patent rights—in hiatus for years, to DataTreasury's sole detriment")).

Furthermore, DataTreasury has made clear that its efforts to "prevent the trampling of its intellectual property" have been focused on extracting licensing fees. (Id.

[10] At pages 3 through 4 of its Response, DT enumerates some of the items the parties have exchanged in this litigation pursuant to the Court's current schedule for this case; what DT neglects to mention is that, with respect to the parties' claim construction exchanges, DT consistently failed to comply with the Court's Patent Rules 4-2, 4-3, and 4-5.

at 10; see also id. at 1 & nn. 1-2). DataTreasury is not prejudiced simply because it has been unable to extract such licensing fees from SVPCo.

DT also attempts to manufacture a claim of prejudice by mischaracterizing the stay SVPCo is requesting as one of indeterminable length. DataTreasury's concerns about the length of the stay are groundless. In its Stay Motion, SVPCo specifically did not request an indefinite stay; instead, SVPCo asked for a stay that will allow for further progress in the already ongoing Reexams. (Stay Motion at 11-12).

Finally, throughout its Response, DT complains that SVPCo and the other defendants who have made similar applications for a stay have not been willing to submit to "DataTreasury's chosen forum" (Response at 2), characterizing the defendants' efforts to attack the validity of the patents-in-suit as "transparent ploy[s] to forestall responsibility for infringement" (id. at 10). DT's complaints are meritless.

DT is making the self-serving assumption that its patents are indeed being infringed, a theory DT has made no move to develop since it filed this case in 2004. In any event, DT is not prejudiced simply because defendants such as SVPCo have not followed a course of action in this litigation that is to DataTreasury's liking.[11] As a result of this lawsuit, as well as the 2006 Lawsuit, SVPCo is faced with the prospect of defending itself against broad patent claims and the threat of monetary damages. SVPCo is empowered by the Federal Rules of Civil Procedure, applicable precedent, and the Patent Code to attack the patents-in-suit vigorously in its defense. The Stay Motion, well-founded in the law and applicable facts of this case, cannot be defeated simply because it "veer[s] off" DT's desired course.

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[11] For instance, the "machinations" of "various defendants" DT refers to in its Response are nothing more insidious than motions to transfer pursuant to the Federal Rules of Civil Procedure and the United States Code.

CONCLUSION

In light of the foregoing, SVPCo respectfully requests that the relief requested in its Stay Motion be granted in its entirety.

Dated: March 9, 2006

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Reply Brief in Support of Motion to Stay has been served on all counsel of record by ECF on this the 9th day of March, 2006.

Preston W. McGee